MONTHLY CONTAINER SHIPPING BAROMETER

OCTOBER 2023

upply

Tiny end-of-year recovery in freight rates

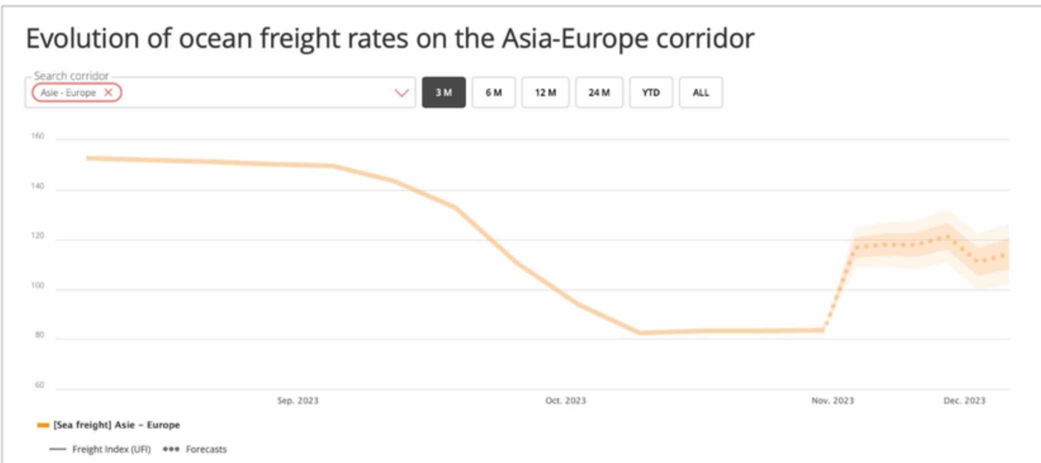
The first signs of a return to growth in demand has halted the erosion of ocean freight rates and even produced modest increases in rates on some routes. The shipping companies are continuing to suffer, however, from overcapacity.

Latest developments

- ***A slight end-of-year improvement***

The slight increase in demand we referred to in our September barometer was confirmed in October. It produced **a small increase in reservations on ex-Asia sailings, particularly from China,** towards the end of October. This trend should become firmer in November and December for sailings to Europe and the United States for the following reasons:

- Freight rates are still very low, particularly on Asia-Europe routes.
- Industrial relations problems on the west coast of the United States have been settled, allowing shipping companies to increase their cargo carryings.
- Manufacturers have launched new products to try to stimulate household consumption.
- Stock levels are returning to normal in Western economies.



The freight rate trend on Asia-Europe routes over the last three months, along with forecast rates for the six weeks to come. Base 100 = January 2017.
Source: Upply Freight Index (UFI).

- ***Chronic overcapacity***

In this situation, current chronic overcapacity, which is expected to **continue for the foreseeable future**, is a real sword of Damocles hanging over the industry. It risks preventing any long-term recovery in freight rates from taking place. There are already too many 24,000 TEU ships in the fleets of the leading carriers or there soon will be, and they are swallowing up occasional increases in demand, as the shipping companies try to fill their huge holds at prices which are derisory by comparison with the massive investment they have made to build them.

The new ships have been built according to a mathematical calculation, based on the hypothesis that the Chinese economy would continue to grow at the same rate as it has over the last two decades. We now know, however, that this hypothesis is no longer pertinent. The MSC Mette served as a sad symbol of the race to build ever bigger ships when it was forced to leave the port of Marseilles' Fos-sur-Mer container terminal empty recently, after its planned ceremonial inauguration was cancelled because of bad weather. It took the longer Cape route to Asia, where it cannot really be said that it is awaited with any great impatience.

The only way to restore freight rates between Asia and Europe today would be to put the whole 23,000-24,000 TEU in lay-up for three months. This would be an ultimate exercise in **carrier discipline but there is virtually no chance of it ever happening.**

Unless....

- ***Geopolitical tensions***

If the Israeli-Palestinian conflict were to spread and threaten the operation of the Suez Canal, **the shipping companies could be tempted to stop using the canal in favour of the much longer Cape route and to introduce very slow steaming.** This option would allow the giant container ships to be operated as part of an "active" fleet strategy, while, at the same time, limiting their impact on real capacity.

The Cape route has traditionally been used by the shipping companies when fuel prices are low, which meant that the additional distance was not financially penalising by comparison with the Suez Canal route. Today, the situation is different. Fuels costs are high, but many big ships are already using the Cape route to Asia at low speed, thus **penalising European exporters, who are obliged to accept much longer transit times, even if freights rate are, it is true, bear little relation to real operating costs.**

In this way, heightened tensions around the canal could lead to a new Suez Crisis, comparable to the one which took place in 1956, which could justify a change of direction in the use of shipping capacity, with heavy fuel surcharges introduced to cover the additional cost of using the longer "new" route.

In this situation, **we would be a long way from the post-Covid resilience sought by logistics operators.** They would have to pay more in 2024 than in 2023 for a service which might be more regular, but which would be slower than ever and offer no hope of any improvement in transit times.

The geopolitical climate and current freight rate levels are starting to create a sense of **alarm among the majority of shippers.** Freight rates projections indicate that rates could increase slightly in the months to come. Tensions around the Strait of Hormuz, the Gulf of Aden and the Suez Canal are well known to be triggers of inflation.

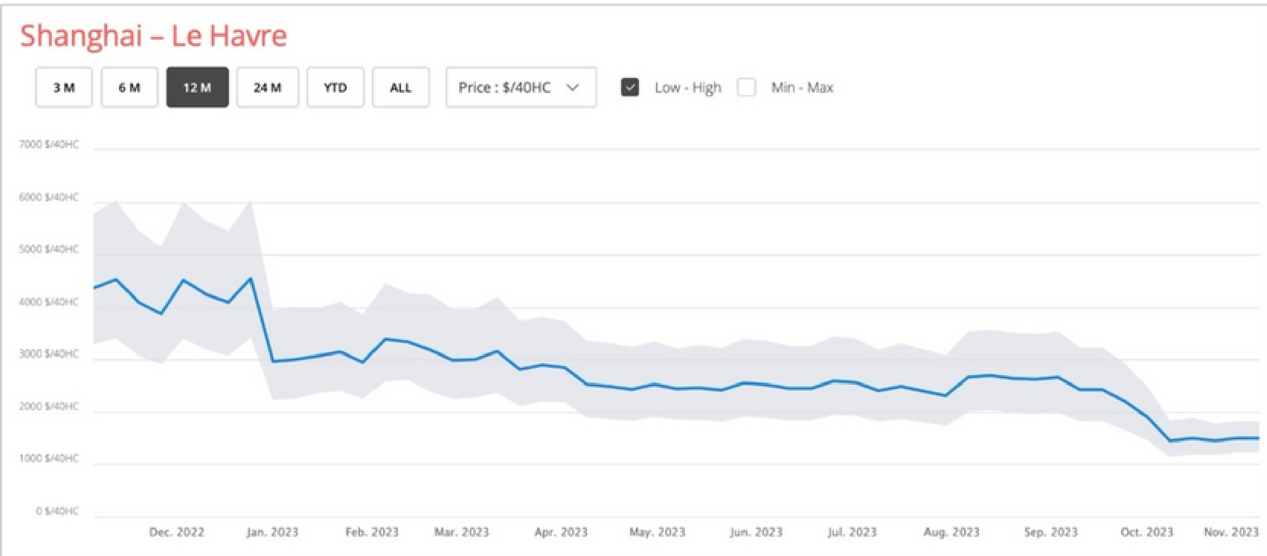
In short, the risk of surcharges for war risks for ships using the Suez Canal and possible additional fuel surcharges for vessels using the Cape route indicate that the noose is tightening around shippers' necks. **More than ever, they need to avoid opting systematically for the lowest possible rate and to concentrate on ensuring that their supply chains and transit times are secure.**

1. PRICES

In October, the shipping companies managed their capacity fairly tightly and this stopped the decline in spot market freight rates. In the transpacific trades, freight rates even improved slightly on a market which has now been abandoned by the opportunistic operators who made their appearance during the pandemic.

To try to restore supply and demand balance, the **shipping companies are using classical defence mechanisms.** They are cancelling ship calls and this seems for the moment to have had the effect of stopping the decline in freight rates on the big east-west markets.

- ## Asia - Europe



Port-to-port rates (spot and contract combined) billed for sailings from Shanghai to Le Havre, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source: Upply.

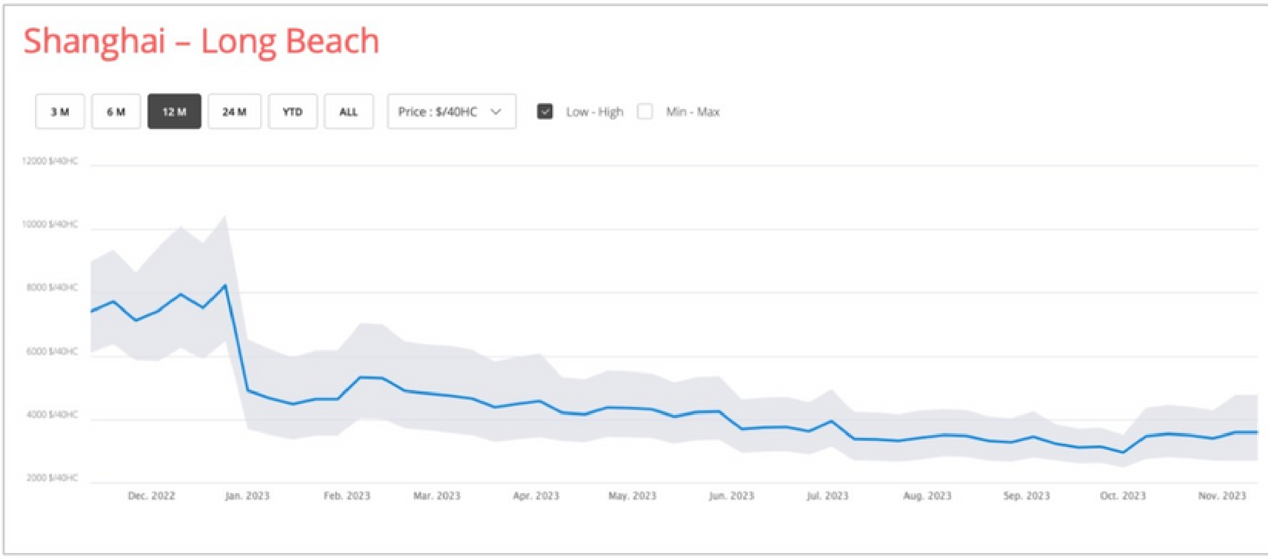
• Europe - Asia

Port-to-port rates (spot and contract combined) billed for sailings from Rotterdam to Shanghai, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source: Upply.

• Europe - USA

Port-to-port rates (spot and contract combined) billed for sailings from Antwerp to New York, THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source: Upply.

- ## Transpacific



Port-to-port rates (spot and contract combined) billed for sailings from Shanghai to Los Angeles (Long Beach), THC included, for a 40' HC DRY container carrying dry, non-dangerous goods.
Source: Upply.

2. SERVICES

Overall, according to Sea Intelligence, **service reliability, as observed on 34 sea routes involving 60 shipping companies, was estimated at 64.4% in September.** This figure was 1.2% up on that for August, while, compared to September 2022, it represents an improvement of 19%. We are still a long way from pre-pandemic reliability levels, which stood at around 80%, but there has nevertheless been a steady improvement.

As for late arrivals in port, Sea Intelligence estimates that these were reduced by 0.09% by comparison with August to an average 4.58 days. This figure was 1.3 days lower than that for September 2022.

When the figures are broken down according to shipping company, **Maersk and its subsidiary, Hamburg Sud, are the top performers.** Both companies registered a reliability rate of 70%. MSC was almost level, with a reliability rate of 69.8%, while six other shipping companies (CMA CGM, Wan Hai, OOCL, PIL, Cosco, and Evergreen) achieved rates of between 60% and 70%. Bottom of the table was HMM with a reliability rate of barely 50%.

Despite the slight improvement in demand on certain routes, the peak season the shipping companies had been dearly hoping for did not take place. Service reorganisation is still on the agenda, therefore.

According to Drewry, between 6 November and 10 December, **52 services, representing 8% of all services announced,** will be cancelled on the main east-west routes. No less than 42% of these 52 cancellations will concern transpacific services from Asia to the United States. Asia-Europe and Asia-Mediterranean links account for 38% of cancellations and transatlantic services a further 19%. Drewry noted that 92% of ships would nevertheless respect their schedules over the five-week period.

- **Transatlantic**

Changes to services between Europe and North America have been fairly limited by comparison with other major trade routes. The SL1/Canada Express service operated by **CMA CGM and Maersk** between northern Europe and Canada will skip calls in Rotterdam and Antwerp. The two companies have announced that calls will be made at these two ports one week in three. In Europe, therefore, the SL1/Canada Express service will only make calls in Bremerhaven. The Panama Direct service operated by **CMA CGM and Marfret** has dropped Zeebrugge from its itinerary. The ships on the service are now calling in Rotterdam, London, Dunkirk and Le Havre. The service links Europe to the east coast of the United States and Jamaica, before continuing to Polynesia (Papeete et Nouméa), New Zealand and Australia.

- **Asia - Europe**

The 2M alliance has decided to cancel seven services in this trade: two AE6/Lion, two Condor and three AES/Griffin loops. These cancellations will take effect during the final weeks of the year, with the first cancellation affecting the Griffin service on 13 November.

Ocean Alliance (CMA CGM, Cosco and Evergreen) is following suit with six loops set for cancellation in the UA7, CES and FAL1 services.

The Alliance (Hapag Lloyd, HMM, ONE and Yang Ming) is to cancel two loops in its FE5 service from 13 November on. To make up for these cancellations, the companies concerned have decided to add port calls to other services. A call in Ho Chi Minh (Cai Mep) will be added to the FE3 service and Colombo will be served by the FE4 service.

CMA CGM is to switch the calls in Jeddah and Algeciras made by its FAL1 and FAL3 services. Jeddah will be called at in future by FAL1 and Algeciras by FAL3.

- **Asie - North America**

In another cutback, **The Alliance** (Hapag Lloyd, HMM, ONE and Yang Ming) has decided to suspend its EC4 service between Asia and the east coast of the United States from the week beginning 13 November. By way of compensation, the EC1 will call in Xiamen, the EC2 in Shenzhen and the EC5 in Charleston and New York.

- **Indian sub-continent**

Services between the Indian sub-continent and the Mediterranean are also being adjusted. **MSC** is extending its service, which calls at ports in the Persian Gulf, India, the Middle East and the eastern Mediterranean (Turkey), with a call to the port of Dammam. In an indication of the good health being enjoyed by this trade, **ONE** is to launch a service between the Indian sub-continent and the Mediterranean. It has space on HMM vessels operating between Asia, India and the Mediterranean. ONE will be able to load cargo in Nhava Sheva, Mundra, Karachi, Jeddah, Damietta, Piraeus, Genoa, Valencia and Barcelona, then again in Piraeus, Damietta, Jeddah, Karachi, Mundra and Nhava Sheva. HMM's ships will then proceed on their journey back to Asia.

Finally, Evergreen and ONE will supply ships for another service between Asia and the Indian sub-continent, which is operated by **KMTC, T.S Lines and X-Press Feeder.** Evergreen and ONE's ships will be replacing those provided by PIL and Gold Star Line, which are withdrawing from the service.

- **Polynesia**

Hapag Lloyd has decided to stop calling in Papeete as part of the joint service it operates with CMA CGM subsidiary ANL and Maersk, which calls at ports on the west coast of the United States and in Australia, New Zealand and the Pacific islands. Maersk does not call in Papeete but nevertheless remains integrated in the ANL service.

3. OPERATIONS

Operating conditions

- **Felixstowe** (Britain): dredging work has been completed. The depth of the access channel has been increased from 14.5 m to 16 m, while the water depth at berths 8 and 9 has been extended from 16 m to 18 m. This was announced to coincide with a call from the 24,200 TEU OOCL Felixstowe.

- **Antwerp:** the 24,100 TEU MSC Tessa, which has a 16 m draft, entered the Deurganckdok. The call set a new record for the terminal, which lies behind the Kieldrechtsluis lock.

- **Panama:** because of persistent drought conditions, the Panama Canal Authority has announced tighter navigating rules. Traffic has been reduced to a maximum of 25 ships per day from 3 November but will be reduced gradually to 18 per day from 1 February 2024.

- **Israel:** Hamas's attack on Israel on 7 October has generated widespread concern throughout the world. The diplomats are trying to limit the scale of the conflict but, in the meantime, trade with Israel is continuing. The port authorities in Haifa and Ashdod restricted imports initially, banning all dangerous goods. The shipping companies offered to disembark shippers' containers in other ports until the situation in Israel improved, while containers which had not left their port of departure were not loaded. Since 17 October, however, carriers have again been loading containers carrying dangerous products. Port operations are taking place normally but with some restrictions. MSC announced that it was experiencing some congestion in Ashdod because of a shortage of manpower at the port - port workers have been called up to take part in the war effort - and tighter security checks. Despite tensions around the Gaza Strip and on the border with Lebanon, road and rail links are operating. MSC announced that it would charge no detention fees between 8 October and 8 November.

The port of Ashkelon, which is less than 50 km from Gaza, is continuing to operate but with some limitations. Its installations have been targeted by Hamas rockets, preventing it from carrying out some operations in the normal way. Israeli shipping company ZIM recalled that war risk insurance was obligatory for ships calling at Israeli ports, with premiums varying from $50 to $100 per container depending on the service concerned.

Port concessions

- In northern Europe, MSC cargo-handling subsidiary **TIL** has consolidated its position. It extended its concession in Bremerhaven for another 25 years. It operates its terminal there jointly with Eurogate. Moreover, the German regulatory authority, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), has authorised MSC to buy a stake in HHLA. The group will thus have a stake of 49.9% in the cargo-handling group. It should be remembered that Cosco Ports acquired a 24.9% stake in HHLA's Tollerort terminal in June 2023.

- In Greece, **the port of Thessaloniki** is one of two bidders selected to manage the port of Volos, which handles mainly conventional general cargo but also has annual container throughput of 17,000 TEU. The Thessaloniki port authority is 67% owned by a consortium comprising Terminal Link, in which CMA CGM has 49% and China Merchants 51%, Deutsche Invest Equity Partners GmbH and Belterra Investments Ltd.

- In Brazil, **APM Terminals** has obtained approval from waterborne transport authority ANTAQ for its plans to turn the former Estaleiro Atlantico Sul Shipyard in Suape into a container terminal. Already present in Santos, Itapoa and Pecem, the Maersk subsidiary will thus be able to expand its port network in Brazil. The new terminal is due to come into operation in 2026 with capacity to handle 400,000 TEU per year.

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The "Services" and "Operations" sections of this barometer are produced in collaboration with Hervé Deiss, who is a journalist specialized in maritime transport and port issues.

Photo credit: Getty Images, Canva